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C O N F I D E N T I A L KATHMANDU 002879

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SUBJECT: FINANCE MINISTER CONCERNED ABOUT MAOIST INTENTIONS

Classified By: Ambassador James F. Moriarty. Reasons 1.4 (b/d)

Summary

11. (C) On October 26, Finance Minister Ram Sharan Mahat expressed his concern to the Ambassador, World Bank Country Director Ken Ohashi and IMF Resident Representative Alexander Pitt that bilateral and multilateral donors not give legitimacy to the Maoists by signing assistance agreements with them as long as they continued their illegal activities. Mahat admitted that he was one of the few ministers who had not yet met with the senior Communist Party of Nepal (Maoist) (CPN-M) leadership. He was skeptical of Maoist economic policies and critical of efforts by the leftist parties generally to enshrine those policies in the interim constitution. He agreed with the Ambassador that the draft document was too long, but seemed resigned that the final result would be unsatisfactory. Mahat shared the Ambassador's concern about Maoist intentions. Where he differed was in his assessment of the result if the People's Liberation Army went into camps. In his view, that step alone would start to reduce the public fear. The Ambassador argued that separation of the Maoist combatants from their weapons also had to take place for that process to begin.

Maoists Illegitimate Actors

12. (C) In his meeting with the Ambassador, World Bank Country Director Ken Ohashi and IMF Resident Representative Alexander Pitt, Finance Minister Ram Sharan Mahat made his view of the Maoists abundantly clear: they were illegitimate actors. Their efforts to cloak their actions and their so-called "People's Governments" with a veneer of respectability were not persuasive. In response to a question from the Ambassador, Mahat said informal contacts with the Maoists were acceptable, but that donors should on no account take steps that indicated they recognized the authority of the Maoists to govern. There was one government and one authority. That included signing assistance agreements. The Government of Nepal (GON), he said, had chosen not to exercise its law enforcement powers against Maoist abuses and claims in the interest of the peace process. The Communist Party of Nepal (Maoist) (CPN-M) had taken advantage of the

GON's generosity -- Mahat referred to it as an "appeasement policy." The Finance Minister added that the GON was tolerating the existing situation only because it anticipated there would be a peace deal in a few weeks.

No Love Lost Between Mahat and the CPN-M

13. (C) Mahat explained that he was not as well informed as some about the peace process because he was one of the very few members of the cabinet who had not met with Maoist Supremo Prachanda, his deputy Baburam Bhattarai or other senior insurgent leaders. As Finance Minister, Mahat did not think it would be appropriate. At the same time, CPN-M leaders were also in no hurry to meet with him. In fact, according to all the reports he had heard, he and Foreign Minister Oli were seen by the Maoists as the two ministers most hostile to their cause, a characterization Mahat seemed happy to embrace. On this line, Mahat voiced a little wistfulness about the old days when CPN-M activists could not travel the world so freely, a time when, as the Ambassador noted, the Government of Nepal, not just the U.S. and Indian Governments still considered the Maoists terrorists.

Inappropriate Economic Policies

14. (C) Minister Mahat expressed disdain for Maoist economic policies, particularly the CPN-M's efforts to characterize socio-economic goals as fundamental rights which had to be incorporated in the interim constitution. The other leftist parties, as fellow "Communists," he stated, had the same objective. (Note: The second-largest party in the governing Seven-Party Alliance is the center-left Communist Party of Nepal - United Marxist Leninist.) Mahat hoped his proposed changes in language for the interim constitution draft would prevail, but he was not confident they would. Ken Ohashi of the World Bank remarked that he was of the impression that the Maoist economic program consisted mostly of populist slogans. In his limited contacts with the CPN-M's leadership, he had challenged their more outrageous economic proposals on property ownership and other issues and encouraged them to act more like a party which might soon be in the government and responsible for implementing its demands. Ohashi stated that he was not sure how much influence the World Bank had over the Maoists.

Unwieldy Interim Constitution

15. (C) The Finance Minister agreed with the Ambassador that the draft interim constitution with its 175 sections made no sense. The document should have been much shorter and addressed itself only to general principles and to those specific matters that it had to address, such as the procedure for inclusive elections to the constituent assembly. It would have been better to leave nearly everything else to the constituent assembly itself. The problem, Mahat saw, however, was that now there was no turning back. He was resigned that the final product of the negotiations would be unsatisfactory.

Difficult to Guess the Outcome of Peace Talks

16. (C) Mahat stated that he was not as optimistic as others in the GON that a peace deal with the Maoists would be reached. Prime Minister Koirala seemed to think it would happen. No one knew, however, when the talks would resume. The issue of Maoist arms management had dragged on for several weeks without any resolution. Meanwhile, the GON, the Finance Minister remarked, was very much aware of threats by CPN-M hardliners that the Maoists would resort to a third people's movement and even a return to open insurgency if the Seven-Party Alliance government did not accede to its demands. The Ambassador said we too found it hard to predict what would happen. With the onset of colder weather in Nepal, the Maoist window of opportunity for launching another

people's movement was closing. If the GON did not buckle in the coming months, the Maoists would find themselves in a worse bargaining position. The question, the Ambassador noted, was whether the CPN-M realized the precariousness of their position.

Disagreement on the Effect of Maoists in Camps With Arms

17. (C) The meeting concluded with a spirited discussion of the likely effect on the Nepali public if the Maoist fighters went into camps under UN supervision. Mahat agreed with the Ambassador that it was not enough to talk about the Maoist People's Liberation Army (PLA). The CPN-M's militia, not the PLA, was usually the instrument of Maoist terror. Nevertheless, the Finance Minister was of the opinion that if the PLA went into cantonments, even if it retained control over its weapons, the people's fear of the Maoists would begin to drain away. The Ambassador, however, suspected fear would not begin to dissipate until the PLA was separated from its weapons. Moreover, a single-key proposal would not work -- if Prachanda were the one with the key. If the UN Secretary General's personal representative to the peace

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process, Ian Martin, had the only key, that would be a different story. Only then would the Maoist militia be stripped of its longstanding ability to threaten eventual harsh retribution by its much better armed PLA colleagues against any who dared to opposed the CPN-M. The Ambassador also emphasized that the GON would need to accept a large international presence if the peace process and the proposed constituent assembly elections were to succeed. Mahat did not disagree.

Comment

18. (C) Finance Minister Mahat and Foreign Minister Oli provide a welcome antidote to those in the Seven-Party Alliance cabinet, such as Home Minister Sitaula, who seem determined to bend over backwards to accommodate the Maoists.

While Mahat is not a key player in the negotiations themselves, we have the impression that his views count with the person in the Government of Nepal who matters most, namely Prime Minister Koirala. We will continue our efforts to work with the Finance Minister to help keep this government on a firm course. While many of the European donors appear inclined to embrace the CPN-M at the earliest opportunity, at least World Bank Country Director Ohashi, who has often seemed of like mind with the Europeans, will now think twice, we hope, before rushing to recognize an unrepentant CPN-M.

MORIARTY